

Corporate Governance in the Central and Eastern Europe Countries - Features and Developments

Laura VASILESCU¹

¹*Faculty of Economy and Business Administration, University of Craiova
laura_giurca_vasilescu@yahoo.com*

Abstract. The governance system of the quoted firms conditions the level of their economic-financial performances, but also the expectations of the investors regarding the future opportunities of development. The firms from Central and Eastern Europe have a common model of governance based on the internal control, as a result of the privatization and restructuring. The corporate governance systems from the Central and Eastern European countries are inefficient, as a result of concentration the power on the hand of employees or managers and the lack of the internal or external control of the others important shareholders, such as banks, institutional investors.

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1. Introduction

Performance of listed companies is significantly influenced by the corporate governance, namely the ability of decision makers to identify and harmonize the interests of the most significant social partners of the firms.

In a broad sense, corporate governance is a set of norms and control mechanisms applied in order to protect and harmonize the interests, in many cases contradictory, of all stakeholders of the companies.

Stricto sensu, the corporate governance designates "the system by which a company is managed and controlled" [Clarke, 1999].

The focus of business community on investor confidence and corporate governance principles of transparency, liability and fair treatment of shareholders has resulted in elaboration of the OECD Principles of Corporate Governance.

Corporate governance norms and regulations are important components of the business environment in developed market economies. In this respect, there were developed corporate governance codes which are a set of principles, standards and best practices of governance issued by an institution whose application is not mandatory, but an optional one. The number of corporate governance codes is high, in some EU countries there are at least a code of corporate governance. As well, there are different models of corporate governance that are customized for specific groups of countries or even at the national economy level.

2. Models of corporate governance in the countries of Central and Eastern Europe

In the Member States of the European Union there are two general models of corporate governance which presents distinct characteristics:

➤ Anglo-Saxon model of corporate governance - a system based on external influence (outsider-based system) exerted by active capital markets through mergers

and acquisitions on listed companies;

➤ German model of corporate governance - a system of internal control (insider-based model), not being centered on the strong influence exerted by active capital markets, but the existence of strong shareholders.

Firms in Central and Eastern European countries have a common governance model based on internal control as a result of privatization and restructuring carried out during the last decades.

The internal control model is based on a form of organization of firms as a result of ownership rights of control by managers or employees of the former state-owned enterprises, a substantial number of shares held by insiders in the case of privatization, or exercise of their interests during the decision-making process of strategic enterprises, which are still state-owned. Internal control is considered a crucial problem because managers have an excessive control of undertakings may act to the detriment of shareholders, employees and other social partners, negatively influencing the financial performance of companies.

Inevitably, the establishment of appropriate mechanisms of corporate governance of privatized enterprises in the countries of Central and Eastern Europe was difficult, since the lack of a legal infrastructure, the appropriate regulatory institutions and the lack of legal framework on property rights, reporting requirements on financial accounting, bankruptcy of companies etc.

Governance structures of firms in European countries in transition were significantly influenced by the goals of privatization, namely political responsibility, legal regulation and privatization effectiveness. Considering the priority of these objectives and specific political and economic conditions, the privatization process registered relatively different forms in countries of Central and Eastern Europe.

The corporate governance of listed companies is a decisive condition for the current economic and financial performance, but also for the investors' expectations concerning future opportunities for their development. Thus, on the one hand, the quality of the administration and management is a non-financial essential variable for assessing the overall performance of listed companies on the stock market. On the other hand, the capital market via the redistribution of available capital and financing the most profitable investments can contribute decisively to the improvement of the governance system of listed companies and thus, to improve their performance through mergers and acquisitions or active involvement of institutional investors in the company management.

Although there are signs that the financial results of the privatized companies are on average higher than those of state enterprises, however, the restructuring was done slowly and the investment process is quite low, which affects the performance of their performances on long term. Dominant forces such as employees and managers have formed coalitions to meet prevailing interests, slowing the restructuring process of production and staff or even lead to bankruptcy of firms.

The corporate governance systems in countries of Central and Eastern Europe are inefficient due to the concentration of power in the hands of employees or management and lack of control exercised from inside or outside by others major shareholders such as banks, institutional investors, or through capital markets.

Based on new principles of business administration, the dialogue policy within a network made up of politicians, regulators, market participants from Central and Eastern Europe, international and regional experts and international organizations has led to: the improvement and understanding of current practices of corporate governance; monitoring and evaluation of corporate governance in the region; the international community informed about the progress of national and regional initiatives

in the field of business administration. Also, the regulatory bodies, in particular those of the securities field should have the resources, capacity and authority to monitor the behavior of companies, to investigate the irregularities and punish the inappropriate practices.

3. System of corporate governance in Romania

In Romania as in other countries in Central and Eastern Europe, the companies are characterized by the same general model of corporate governance based on internal control of management and employees, but with certain peculiarities depending on the national, economic, social, political, cultural conditions where the forms of governance have emerged and developed.

Corporate Governance of Romanian enterprises and thus, their performance trends, can not be analyzed and understood only in terms of progress and reform in the context of transition from planned economy to market economy, which caused profound changes in the economical micro universe.

The main problem of corporate society in Romania is the conflict of interest between majority and minority shareholders that degenerates into disagreements between management, Board of Directors and minority shareholders as well as between the majority shareholders and business partners of the company, causing long-term performance degradation of companies and even their bankruptcy.

One of the explanations for this situation is the excessive authority of majority shareholders and lack of control and a strong monitoring from other business partners of the company. Due to the high concentration of shareholders, the management bodies of the company - Board of Directors and managers are subordinated to majority owner and acts in order to satisfy its interests.

Starting from a realistic vision and being aware that the implementation of new principles of business administration depends on the confidence of investors in a particular investment environment with major consequences in local companies' ability to attract financial resources or in terms of attracting international capital flows, the Bucharest Stock Exchange (BSE) has launched a number of initiatives in this direction, supported by the National Securities Commission, the Romanian government and the international institutions and experts.

Thus, increased transparency for companies listed on BSE has been a concern since 2001, when it was created the Category Plus at the stock exchange, where were admitted issuers with a plus off transparency. Although this category has proved a failure, because it promoted a single company, BSE continued to seek ways to bring on the Bucharest market principles of transparency seen in neighboring stock exchanges. In 2003 it was founded the Institute of Corporate Governance - in order to change the management culture in accordance with the international standards by raising the professional standards of managers.

Based on the principle of respect and strengthen the right to private property, the Code of Corporate Governance prepared by the BSE establishes a set of rules and requirements that influence the management of a company in terms of strategic planning and decision making to optimize the interests of shareholders, creditors, customers employers and employees. Thus, the Corporate Governance Code elaborated by BSE includes the following chapters: the rights of shareholders, equitable treatment of shareholders, role of interest groups in corporate governance, presentation of information and transparency, responsibilities of the Board of directors.

The Corporate Governance Code can be applied to any company, but especially to companies listed on the stock exchange, regardless their initial capital origin - public

or private. Moreover, the rules can be applied to companies receiving funding through venture capital fund whose shares are held by a mutual fund, a closed-end fund (other than a venture capital fund) or pension fund, even if the shares of such companies are not yet listed on the stock exchange.

Even in the recent years there were seen positive effects in terms of communication of Romanian managers with investors, the provisions of the Code of Corporate Governance eliminated from discussion certain principles regarding the management.

Considered as the first necessary step in the development of capital market and attracting foreign capital to all issuers implementation of corporate governance principles is a major goal towards which tends Romanian stock market.

4. Conclusions

The governance structures of firms in countries of Central and Eastern Europe were significantly influenced by the objectives and effectiveness of the privatization process. Although important progresses has been made in terms of corporate management in loast years, however, the corporate governance systems in countries of Central and Eastern Europe are not effective, either as a result of the concentration of power in the hands of employees or management, either because of lack of control from outside or inside exercised by other major shareholders such as banks, institutional investors.

Regarding Romania, companies are characterized by the same general model of corporate governance based on internal control of management and employees, but with certain peculiarities depending on the national economic, social, political, cultural specific forms of governance that have emerged and developed.

Given the effectiveness of its system of governance and the quality of relationships between the firm and its social partners, which provides improvement of firm's performances in condition of perennial, can be appreciate that corporate governance of Romanian enterprises is still underdeveloped.

Regulators and capital market institutions, especially BSE, have demonstrated that have the necessary tools to start this reform by introducing the modern management principles of corporate governance. Major dilemma that appears on the Romanian stock market is, however, remaining in the planning, referral and dissemination stage of these principles or to get to the next implementation phase, at least in companies listed on BSE. This second option, however, involves the risk of a more difficult and restrictive access of new issuers on the stock market by requiring compliance with the new rules and principles of business administration.

Due to the imposition of additional requirements, there is the risk of delisting for some of the present companies at the moment when the offer of new titles remained far behind demand. Therefore, the choice should be made between establishing on medium and long term of an attractive investment climate characterized by competitive companies and the risk to limit the capital market at a reduced capitalization and a reduced number of issuers.

Therefore, the answer that emerges seems to be a gradual increase in the degree of enforcement by the bodies and capital market institutions to meet the new principles of doing business, while increasing efforts to promote these principles to the entire economic environment.

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